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15 May

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15 MAY 1959

MEMORANDUM FOR: Director of Central Intelligence

THROUGH: Deputy Director/Intelligence

SUBJECT: Soviet Transfer to Communist China of the
Sterling Proceeds from the Sale of Gold
in Western Europe

REFERENCE: "Soviet Gold Sales and Sterling Transfers to
Communist China" [redacted]

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1. This memorandum is in response to your request to Mr. Sheldon
and is for information only.

2. Western currency transfers similar to those in the referenced
article (attached) have occurred in the past. In fact, the \$41 million in
sterling transferred to the Communist Chinese, described in the
referenced report, is only the most recent of a series of such transfers
from Gesbank which since August 1958 have amounted to at least
\$170 million. The USSR has frequently transferred deposits held in the
West in convertible currencies to the accounts of Eastern Europe as
well as to China.

3. The USSR provides many of the functions of a central bank for
the Sino-Soviet Bloc. Foreign currency deposits held for the account of
China and other Bloc countries in Moscow may be transferred to a

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Western European correspondent when needed by their owners to finance current trade. Moreover, the USSR sometimes advances Western currency funds as a short-term credit to other Bloc countries. Thus, there are frequent occasions when Soviet banks must make Western currencies available to other Bloc countries either from existing funds on deposit in Western Europe or by the sale of gold.

4. For a variety of reasons, including a desire for secrecy and the possibility of blocked accounts or devaluation, the USSR has always restricted its convertible currency accounts in the West to the level necessary to provide a minimum of "flexibility" and "maneuverability" in foreign trade. The USSR thus relies on its gold stock rather than on foreign currency holdings to provide the major portion of its international financial reserves.

5. The USSR at the present time is suffering from a shortage of sterling. The sizeable transfers of Western currency deposits by Gosbank to correspondents in London and Paris in recent months undoubtedly necessitated sales of gold in order to augment its Western currency holdings. In this way, the USSR has been able to meet its own current commercial commitments as well as those reflecting the drawings by the rest of the Bloc against the latter's convertible currency deposits held in Gosbank.

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6. The fact that China has recently invested in short-term interest-bearing deposits in London indicates that the Chinese are earning interest on their sterling balances as they are accumulated in anticipation of financial commitments.

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Acting Assistant Director
Research and Reports

Enclosure:

Copy of Referenced Paper.

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